CEMFI

Javier Suarez

CORPORATE FINANCE

Course outline and reading list

(* = main reading)

0. Introduction and general references [marked_slides]

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill. [There is a second edition published in 2002.]

Tirole, J. (2006). *The Theory of Corporate Finance*, Princeton University Press.

Graham, J., and H. Campbell (2001), "The Theory and Practice of Corporate Finance: Evidence from the Field," *Journal of Financial Economics*, 60, pp. 187-243.

Claessens, S., and L. Laeven (2006), *A Reader in International Corporate Finance*, World Bank Publications, vol. 1-2.

1. The Modigliani-Miller propositions [marked_slides]

Copeland, T., and J. Weston (1988), *Financial Theory and Corporate Policy*, Addison Wesley, 3rd Edition, ch. 1 and 5.

Ross, S., R. Westerfield and J. Jaffe (1996), *Corporate Finance*, 4th Edition, ch. 4, 7, and 12.

Duffie, D. (1992), "Modigliani-Miller Theorem," in Newman, P. et al. (eds.), *The New Palgrave Dictionary of Money and Finance*, vol. II, MacMillan, pp. 715-718.

*Miller, M. (1988), "The Modigliani-Miller Propositions after Thirty Years," *Journal of Economic Perspectives*, 2, pp. 99-120.

Stiglitz, J. (1974), "On the Irrelevance of Corporate Financial Policy," *American Economic Review*, 66, pp. 851-866.

2. Taxes and the costs of financial distress [marked_slides]

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill, ch. 13 and 15.

Brealey, R., and S. Myers (1991), *Principles of Corporate Finance*, McGraw-Hill, 4th Edition, ch. 18.

*Miller, M. (1977), "Debt and Taxes," Journal of Finance, 32, pp. 261-73.

Berens, J., and C. Cuny (1995), "The Capital Structure Puzzle Revisited," *Review of Financial Studies*, 8, pp. 1185-1208.

DeAngelo, H., and R. Masulis (1980), "Optimal Capital Structure under Corporate and Personal Taxation," Journal of Financial Economics, 8, pp. 3-30. Reprinted in M. Jensen and C. Smith (eds.), *The Modern Theory of Corporate Finance*, McGraw-Hill, pp. 39-65.

Opler, T., M. Saron and S. Titman (1997), "Designing Capital Structure to Create Shareholder Value," *Journal of Applied Corporate Finance*, 10, pp. 21-32.

Flannery, M., and K. Rangan (2006), "Partial Adjustment Toward Target Capital Structures," *Journal of Financial Economics*, 79, pp. 469–506.

Hennessy, C., and T. Whited (2005), "Debt Dynamics," *Journal of Finance*, 60, pp. 1129-1165.

3. Conflicts of interest between shareholders and debtholders [marked_slides]

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill, ch. 15.

*Jensen, M., and W. Meckling (1976), "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, 3, pp. 305-60. Reprinted in M. Jensen and C. Smith (eds.), *The Modern Theory of Corporate Finance*, McGraw-Hill, pp. 78-133.

Green, R. (1984), "Investment Incentives, Debt and Warrants," *Journal of Financial Economics*, 13, pp. 115-136.

Grossman, S. and Hart, O. (1982), "Corporate Financial Structure and Managerial Incentives," in McCall, J. (ed.), *The Economics of Information and Uncertainty*, Chicago University Press.

*Myers, S. (1977), "Determinants of Corporate Borrowing," *Journal of Financial Economics*, 5, pp. 147-175. Reprinted in M. Jensen and C. Smith (eds.), *The Modern Theory of Corporate Finance*, McGraw Hill, pp. 146-174.

Stein, J. (1992), "Convertible Bonds as Backdoor Equity Financing," *Journal of Financial Economics*, 32, pp. 3-21.

Harris, M., and A. Raviv (1992), "Financial Contracting Theory," in Laffont, J-J. (ed.), *Advances in Economic Theory*, vol. II, Cambridge University Press, pp. 64-150.

4. Agency problems between managers and investors [marked_slides]

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill, ch. 17.

Tirole, J. (2006). *The Theory of Corporate Finance*, Princeton University Press.

Innes, R. (1990), "Limited Liability and Incentive Contracting with Ex-ante Action Choices," *Journal of Economic Theory*, 52, pp. 45-67.

Jensen, M. (1986), "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review Papers and Proceedings*, 76, pp. 323-329.

*Hart, O. (1995), *Firms, Contracts, and Financial Structure*, Oxford University Press, ch. 6.

Stulz, R. (1990), "Managerial Discretion and Optimal Financing Policies," *Journal of Financial Economics*, 26, pp. 3-27.

Bolton, P., and D. Scharfstein (1996), "Optimal Debt Structure and the Number of Creditors," *Journal of Political Economy*, 104, pp. 1-25.

Zwiebel, J. (1996), "Dynamic Capital Structure Under Managerial Entrenchment," *American Economic Review*, 86, pp. 1197-1215.

Shleifer, A., and R. Vishny (1997), "A Survey of Corporate Governance," *Journal of Finance*, 52, pp. 737-783.

Barclay, M. and C. Smith (1996), "On Financial Architecture: Leverage, Maturity, and Priority," *Journal of Applied Corporate Finance*, 8, pp. 4-17.

5. Asymmetric information I: Signalling [marked_slides]

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill, ch. 18.

*Ross, S. (1977), "The Determination of Financial Structure: The Incentive-Signalling Approach," *Bell Journal of Economics*, 8, 23-40.

*Leland, H., and D. Pyle (1977), "Informational Asymmetries, Financial Structure and Financial Intermediation," *Journal of Finance*, 32, pp. 371-387.

Bhattacharya, S. (1979), "Imperfect Information, Dividend Policy and the Bird in Hand Fallacy," *Bell Journal of Economics*, 10, pp. 259-70.

6. Asymmetric information II: Dilution and the pecking order [marked_slides]

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill, ch. 16.

*Myers, S., and N. Majluf (1984), "Corporate Financing and Investment Decisions when Firms Have Information that Investors Do Not Have," *Journal of Financial Economics*, 13, pp. 187-221.

Daniel, K., and S. Titman (1995), "Financing Investment Under Asymmetric Information," in R. Jarrow et al (eds.), *Handbooks in Operations Research and Management Science: Finance*, Elsevier Science, ch. 23.

Frank, M., and V. Goyal (2003), "Testing the Pecking Order Theory of Capital Structure," *Journal of Financial Economics*, 67, pp. 217–248.

7. **Payout policies** [marked_slides]

Allen, F., and R. Michaely, "Dividend Policy," in R. Jarrow et al (eds.), *Handbooks in Operations Research and Management Science: Finance*, Elsevier Science, ch. 25.

Grinblatt, M., and S. Titman (1998), *Financial Markets and Corporate Strategy*, Irvin/McGraw-Hill, ch. 14.

*Lintner, J. (1956), "Distributions of Incomes of Corporations Among Dividends, Retained Earnings and Taxes," *American Economic Review*, 46, 97-113.

*Miller, M., and K. Rock (1985), "Dividend Policy under Asymmetric Information," *Journal of Finance*, 40, pp. 1031-51.

John, K., and J. Williams (1985), "Dividends, Dilution and Taxes: A Signaling Equilibrium," *Journal of Finance*, 40, pp. 1053-1070.

Bernheim, D., and A. Wantz (1995), "A Tax-Based Test of the Dividend Signaling Hypothesis," *American Economic Review*, 85, pp. 532-551.

Fudenberg, D., and J. Tirole (1995), "A Theory of Income and Dividend Smoothing Based on Incumbency Rents", *Journal of Political Economy*, 103, pp. 75-93.

Baker, M., and J. Wurgler (2004), "A Catering Theory of Dividends", *Journal of Finance*, 59, pp. 1125-1165.

8. **Mergers and acquisitions** [marked_slides]

Ross, S., R. Westerfield and J. Jaffe (1996), *Corporate Finance*, 4th Edition, ch. 29.

Hirshleifer, D. (1995), "Mergers and Adquisitions: Strategic and Informational Issues," in R. Jarrow et al (eds.), *Handbooks in Operations Research and Management Science: Finance*, Elsevier Science, ch. 26.

Becht, M., P. Bolton, and A. Röell (2003), "Corporate Governance and Control," *Handbook of the Economics of Finance*, Elsevier Science, ch. 1.

Burkart, M., and F. Panunzi (2006), "Takeovers," ECGI WP 118/2006.

Grossman, S., and O. Hart (1980), "Takeover Bids, the Free-Rider Problem, and the Theory of the Corporation," *Bell Journal of Economics*, 11, pp. 42-64.

*Shleifer, A., and R. Vishny (1986), "Large Shareholders and Corporate Control," *Journal of Political Economy*, 94, pp. 461-88.

*Bagnoli, M., and B. Lipman (1988), "Successful Takeovers without Exclusion," *Review of Financial Studies*, 1, pp. 89-110.

*Fishman, M. (1988), "A Theory of Preemptive Takeover Bidding," *RAND Journal of Economics*, 19, pp. 88-101.

Burkart, M., and S. Lee (2008), "One Share - One Vote: the Theory," *Review of Finance*, 12, pp. 1-49.

Grossman, S., and O. Hart (1988), "One-Share-One-Vote and the Market for Corporate Control," *Journal of Financial Economics*, 20, pp. 175-202.

Jensen, M., and R. Ruback (1983), "The Market for Corporate Control: The Scientific Evidence," *Journal of Financial Economics*, 11, pp. 5-50. Reprinted in M. Jensen and C. Smith (eds.), *The Modern Theory of Corporate Finance*, McGraw-Hill, pp. 586-631.

Stein, J. (1988), "Takeover Threats and Managerial Myopia," *Journal of Political Economy*, 96, pp. 61-80.

9. Going public [marked_slides]

Roell, A. (1996), "The Decision to Go Public: An Overview," *European Economic Review*, 40, pp. 1071-1081.

Ibbotson, R., and J. Ritter (1995), "Initial Public Offerings," in R. Jarrow *et al* (eds.), *Handbooks in Operations Research and Management Science: Finance*, Elsevier Science, ch. 30.

*Rock, K. (1986), "Why New Issues Are Underpriced?," *Journal of Financial Economics*, 15, pp. 187-212.

Allen, F., and G. Faulhaber (1989), "Signaling by Underpricing in the IPO Market," *Journal of Financial Economics*, 23, pp. 303-323.

Lowry, M., M. Officer, and W. Schwert (2010), "The Variability of IPO Initial Returns," *Journal of Finance*, 65, pp. 425-465.

10. Corporate governance [marked_slides]

Becht, M., P. Bolton and A. Röell (2003), "Corporate Governance and Control", in G. Constantinides, M. Harris and R. Stulz (eds.), *Handbook of the Economics of Finance*, North-Holland.

Burkart, M., and S. Lee (2008), "One Share - One Vote: The Theory," *Review of Finance*, 12, pp. 1-49.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny (2000), "Investor Protection and Corporate Governance," *Journal of Financial Economics*, 58, pp. 3-27.

*Almazan, A., and J. Suarez (2003), "Entrenchment and Severance Pay in Optimal Governance Structures," *Journal of Finance*, 58, pp. 519-547.

Burkart, M., D. Gromb, and F. Panunzi (1997), "Large Shareholders, Monitoring and the Value of the Firm," *Quarterly Journal of Economics*, 113, pp. 693-728.

Hermalin, B., and M. Weisbach (1998), "Endogenously Chosen Boards of Directors and Their Monitoring of the CEO," *American Economic Review*, 88, pp. 96-118.

Burkart, M., F. Panunzi, and A. Shleifer (2003), "Family Firms," *Journal of Finance*, 58, pp. 2167-2201.